

Fresh strategy helps NM Software pull out of doldrums

New Products, a fresh strategy improve bottom line for once struggling tech firm

AUGUST 17-23, 2007

newmexicobizjournals.com

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After eight years of consecutive annual losses, things may be looking up for **New Mexico Software Inc.**

The company is still in the red, but its latest filing with the U.S. Securities and Exchange Commission for the second quarter of 2007 shows a big improvement in financials. Revenues is up, debt and operating expenses are down, and net losses have been cut to nearly one-fourth of what they were a year ago, said President and CEO Dick Govatski.

"We're poised to take off," Govatski said. "A lot of our problems are behind us now. We've been coming around the final corner for about a year, and I think we're finally there."

Indeed, it's been a long, hard road for the company, which provides Internet-based software and services that allow businesses to organize, archive and instantly access images and data.

Govatski founded the firm in 1995, and 1999 it

went public by merging with a bankrupt Utah company kept alive as a placeholder on the OTC Bulletin Board. Since going public, NM Software has wracked up six and seven-figure losses every year. In fact, the company reached rock bottom last year with \$2.72 million in net losses - almost twice the \$1.48 million loss reported in 2006.

But last year's doldrums had some solid silver lining. Fundamental policy changes begun in 2006 have turned financials around. During the first half of 2007, revenue jumped 14 percent and net losses dropped 73 Percent (see table).

The company launched a revenue generating strategy last year that has greatly improved cash flow said Controller Carol McGlauchlin.

Under the new strategy, the firm no longer sells its software. Rather, it hosts online services for customers who pay monthly fees or who are charged on per-use basis. Monthly revenues have nearly doubled, from around \$43,000 last year to nearly \$80,000 this year.

"The switch in strategy led to a drop in revenue at first, and that was reflected in our losses last year," McGlauchlin said. "But this year, the recurring revenue model really kicked in."

The company is especially benefitting from sales to medical firms, particularly radiologists who need to archive X-Rays for immediate, real-time retrieval. NM Software stores and manages that data at its center in Albuquerque and charges for each report accessed by client company.

Nine new customers signed up for those services in the second quarter of 2007, Govatski said. The company now provides continuous service to 52 medical divisions in more than 3,260 facilities.

NM Software also dropped an expensive online advertising and marketing campaign it launched last year that included hiring six salespeople and a \$600,000 contract with **Forbes Magazine**. "The sales and advertising didn't work out well,"

McGlauchlin said. "One by one the salespeople have left, and we haven't renewed our contract with Forbes."

Consequently, operating expenses have dropped 54 percent, from \$1.06 million in the first half of 2006 to \$490,000 in the first six months of 2007, McGlauchlin said.

Finally, NM Software is almost debt free. It paid off a \$359,000 debt to the IRS during the past year. And, in the third quarter, it will make its last \$13,000 payment on a debt to **Bank of Los Alamos** that had totaled more than \$700,000. "By the third quarter, liabilities will soon be about 50 percent less than at the end of 2006," Govatski said. "That has strengthened our cash flow. Soon we'll be using revenue only to grow the company rather than pay off debt."

NM Software launched two new products company this year, software services designed exclusively for the dental industry, plus an upgrade to the company's flagship "digital filing cabinet"- that will allow a businesses to back up their data and manage forms and office work-flow online. And the company struck two new partnership with distributors the New Zealand and South America to sell NM Software services overseas for first time.

Investors are upbeat about the company's improving outlook. "Even if they're one or two quarters behind on their goal of becoming cash-flow positive, they're clearly moving forward," said shareholder George Richmond. "Their financials have really turned around."

Charles Trapp of New Jersey-based **Sommerset Kensington Capital** said he's still very confident in the company.

"They've got a great product and their financial situation seems to be improving every quarter," Trapp said. "I expect then to reach the break-even point very soon."

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NM Software, Inc.
revenue and net income (in Millions)

	2001	2002	2003	2004	2005	2006	First Half 2006	First Half 2007
Revenue	1.279	1.658	1.3	1.018	1.399	.913	.445	.507
Net income loss	(2.240)	(.522)	(.884)	(.703)	(1.048)	(2.723)	(.908)	(.245)

SOURCE: NM SOFTWARE SEC FILINGS